

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION
August 1, 2000**

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Messrs. Axilrod, Kalaris, Martin, and Stark. The Federal Register announcement of the meeting and a list of Committee members are attached.

John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, Director, Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:20 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:40 a.m. All members were present except Messrs. Axilrod, Kalaris, Martin, and Stark. Assistant Secretary for Financial Markets, Lee Sachs, gave the Committee its Charge, which is also attached.

The Committee began by discussing the question regarding how the Treasury might adjust the buyback program going forward. The Committee noted that repurchase operations had become almost a “non-event” to the market. There were little, if any, market reactions when Treasury conducted buyback operations, even when varying operation sizes and maturity ranges.

Regarding participation in buyback operations, Committee members cited low customer involvement and virtually no foreign participation. Foreign accounts were viewed as “buy and hold” and generally not considered likely to participate in debt buybacks. Committee members also noted that buyback cover ratios were still well within an acceptable range, although they have, as one would expect, trended down over the first ten operations. One committee member cited customer concern regarding operation turnaround times as a reason for poor customer participation and suggested that smaller operations with fewer securities would be more desirable.

Regarding buybacks overall, the Committee reiterated their previous recommendations that the Treasury continue the practice of announcing quarterly buyback-target amounts and adhere to a regular, predictable, and fairly frequent buyback schedule. Treasury should continue with the one-day announcement period. The members stated that despite little foreign participation, a one-day

announcement period remained desirable in order to allow potential overseas investors to participate. The Committee felt that smaller operation sizes, as measured by number of securities, generally resulted in quicker response times and may encourage customer participation. There was also a consensus among Committee members that at some point in the future, Treasury should consider repurchasing securities in maturity sectors other than the 15- to 25-year range. This was considered necessary because as the buyback program progressed, liquidity would eventually diminish in particular sectors effecting both the volume and prices of offers.

Next, the Committee turned its attention to the question in the Charge regarding other adjustments Treasury may eventually need to make to the current financing schedule given the continuing projected improvement in the fiscal situation. The Committee began by noting that surplus projections had succeeded in raising market awareness of Treasury's near-term debt management plans, particularly concerning long-term debt issuance. Members cited significant uncertainty surrounding the continued issuance of long-term debt, with some investors believing that long-term issuance will soon disappear, while other investors expect Treasury to maintain risk-free benchmarks for policy reasons.

The Committee suggested that Treasury address this uncertainty. They recommended that the Treasury acknowledge the magnitude of the current projections and the longer-term debt-management implications of these projections should they be realized. Second, the Treasury should indicate that even if current projections are realized, significant changes to auction cycles over the near term are unnecessary. Third, no decision has been made concerning the elimination of any particular issue, but the topic is constantly under review. Finally, the Treasury should remind investors that Treasury consistently gives advance notice prior to changing an auction cycle or the elimination of any particular issue.

The Committee next addressed the question in the Charge regarding making 5-year notes issued prior to September 1997 eligible for stripping. The Committee unanimously agreed on the desirability of this action, noting that the 0- to 5-year maturity sector in the STRIPS market was expensive and somewhat illiquid. Allowing old 5-year notes to be eligible for stripping would facilitate reconstitutions in the short end of the curve and enhance overall market liquidity. As a means of further enhancing liquidity, the Committee also recommended that the issue of fungibility of coupon and principal STRIPs be studied.

Regarding the quarterly refunding, by a unanimous vote, the Committee recommended a reopening of the 6-3/4 percent 5-year notes of 5/15/05 in an amount of \$10 billion. Also by unanimous vote, the Committee recommended issuing \$10 billion of a new 10-year note. Finally, the Committee, in total, recommend a reopening of the 6-1/4 percent 30-year bonds of 5/15/30 in an amount of \$5 billion. Looking at the remainder of the July-September quarter, the Committee recom-

mended that 2-year notes remain at \$10 billion for August and September, and that weekly bills be maintained at the \$18 billion level.

Looking ahead to the October-December quarter, the Committee recommended that Treasury issue \$12 billion of new 5-year notes and \$8 billion of reopened 10-year notes at the November quarterly refunding. They recommended that 2-year note sizes remain constant at \$10 billion and that the October 30-year inflation indexed security be a \$6 billion issue size. Weekly bills would be increased slightly to \$19 billion for the quarter.

The meeting adjourned at 12:32 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Messrs. Axilrod, Kalaris, Martin, and Stark. The Chairman presented the Committee report to Undersecretary Gensler, Assistant Secretary Sachs, and Deputy Assistant Secretary Paulus. A brief discussion followed the Chairman=s presentation, but did not raise significant questions regarding the report=s content.

The meeting adjourned at 6:15 p.m.

Paul F. Malvey
Director
Office of Market Finance
August 1, 2000

Certified by:

Kenneth M. deRegt, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
August 1, 2000

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COMMITTEE CHARGE

The Treasury would like the committee's advice on the following:

- Through last week, the Treasury had conducted ten buyback operations: three for \$1 billion, one for \$1.2 billion, five for \$2 billion, and one for \$3 billion. The number of securities included in these buyback operations have varied from six to twenty-six, and the maturity ranges for operations have varied from two years and one month to eleven years. Given Treasury's experience to date with buybacks, how would you recommend Treasury proceed with the program for the remainder of this year and next year, specifically in terms of operation size, regularity, maturity range, and notice period?
- Since the committee last convened, the Administration's Midsession Review and CBO's Budget Update were released showing significantly higher surpluses and greater debt reduction than was forecasted last February. Would the Committee recommend any further changes to Treasury's financing plans as a result of these new projections? Specifically, would you recommend that Treasury make any further changes to auction frequencies, auction cycles, or reopening policies to maintain large liquid issues?
- In September 1997, Treasury announced that all new marketable fixed-rate coupon securities would be eligible for stripping. Securities issued prior to September 1997 that were not already eligible for the STRIPS program were not made eligible. What is the Committee's recommendation regarding making outstanding 5-year notes issued prior to September 1997 eligible for stripping?
- The composition of a financing to refund \$25.1 billion of privately held notes maturing on August 15 and to possibly pay down up to approximately \$2 billion of debt in 5- and 10-year notes.

The composition of Treasury marketable financing for the remainder of the July - September quarter, including cash management bills if needed.

The composition of Treasury marketable financing for the October-December quarter.

- Any other topics related to Treasury's debt management program.

DEPARTMENT OF THE TREASURY

**DEBT MANAGEMENT ADVISORY
COMMITTEE
MEETING**

Notice is hereby given, pursuant to 5 U.S.C. App. §10(a)(2), that a meeting will be held at the U.S. Treasury Department, 15th and Pennsylvania Avenue, N.W., Washington, D.C., on August 1, 2000, of the following debt management advisory committee:

The Bond Market Association
Treasury Borrowing Advisory Committee

The agenda for the meeting provides for a technical background briefing by Treasury staff, followed by a charge by the Secretary of the Treasury or his designate that the committee discuss particular issues, and a working session. Following the working session, the committee will present a written report of its recommendations.

The background briefing by Treasury staff will be held at 9:00 a.m. Eastern time and will be open to the public. The remaining sessions and the committee's reporting session will be closed to the public, pursuant to 5 U.S.C. App. §10(d).

This notice shall constitute my determination, pursuant to the authority placed in heads of departments by 5 U.S.C. App. §10(d) and vested in me by Treasury Department Order No. 101-05, that the closed portions of the meeting are concerned with information that is exempt from disclosure under 5 U.S.C. §552b(c)(9)(A). The public interest requires that such meetings be closed to the public because the Treasury Department requires frank and full advice from representatives of the financial community prior to making its final decision on major financing operations. Historically, this advice has been offered by debt management advisory committees established by the several major segments of the financial community. When so utilized, such a committee is recognized to be an advisory committee under 5 U.S.C. App. §3.

Although the Treasury's final announcement of financing plans may not reflect the recommendations provided in reports of the advisory committee, prema-

ture disclosure of the committee's deliberations and reports would be likely to lead to significant financial speculation in the securities market. Thus, these meetings fall within the exemption covered by 5 U.S.C. §552b(c)(9)(A).

The Office of Financial Markets is responsible for maintaining records of debt management advisory committee meetings and for providing annual reports setting forth a summary of committee activities and such other matters as may be informative to the public consistent with the policy of 5 U.S.C. §552b.

Lee Sachs
Assistant Secretary
(Financial Markets)

Dated: June 26, 2000

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of the
The Bond Market Association**

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U.S. TREASURY FINANCING SCHEDULE FOR 3RD QUARTER 2000

Billions of Dollars

Issue	Announcement Date	Auction Date	Settlement Date	Offered Amount	Foreign Add-Ons	Maturing Amount	Net Fund Redemption	New Money
3&6 MONTH BILLS	06/29	07/03	07/06	16.02 A	0.1	15.2	0.0	0.8
	07/06	07/10	07/13	16.01 A	0.4	15.0	0.0	1.0
	07/13	07/17	07/20	16.01 A	0.9	15.0	1.4	1.0
	07/20	07/24	07/27	16.01 A	0.8	15.0	-1.4	1.0
	07/27	07/31	08/03	18.01 A	0.0	15.4	0.0	2.6
	08/03	08/07	08/10	18.00		16.6	0.0	1.4
	08/10	08/14	08/17	18.00		16.6	1.7	1.4
	08/17	08/21	08/24	18.00		16.6	-0.1	1.4
	08/24	08/28	08/31	18.00		17.2	0.0	0.8
	08/29	09/04	09/07	18.00		17.6	0.0	0.4
	09/07	09/11	09/14	18.00		16.1	2.2	1.9
	09/14	09/18	09/21	18.00		16.4	0.0	1.6
	09/21	09/25	09/28	18.00		18.4	-0.2	-0.4
				226.05	5.36	211.16	3.68	14.89
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1-YEAR BILLS								
			07/20	0.00		10.4	-4.9	-10.4
			08/17	0.00		10.0	-5.0	-10.0
	08/24	08/29	08/31	10.00		0.0	0.0	10.0
			09/14	0.00		10.4	-5.2	-10.4
				10.00		30.83	-15.12	-20.83
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CASH MANAGEMENT BILLS								
49-Day Bill	8/01	08/02	08/03	8.00		8.00		0.00
	Matures 9/21							
37-Day Bill	8/10	8/14	08/15	12.00		12.00		0.00
	Matures 9/21							
15-Day Bill	08/28	08/29	08/31	25.00		25.00		0.00
	Matures 9/15							
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BUYBACKS								
	06/28	06/29	07/03					-2.00
	Maturity Range		Feb. 19-Aug. 23;	Average Maturity 20.3 Years				
	7/19	7/20	7/24					-1.50
	Maturity Range		Feb. 21-Aug. 23;	Average Maturity 19.2 Years				
	7/26	07/27	07/31					-1.00
	Maturity Range		Feb. 19-Feb. 21;	Average Maturity 19.2 Years				
	08/23	08/24	08/28					-1.00
	08/30	08/31	09/05					-1.00
	09/20	09/21	09/25					-1.00
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COUPONS								
					Change in Size			
10-YEAR TIPS (R)	07/05	07/12	07/17	5.00 A	-1.00	0.0	0.00	5.0
2-Year Note	07/19	07/26	07/31	10.00 A		1.7	27.3	-0.4
5-Year Note	08/02	08/08	08/15	10.00	-2.00			
10-Year-Note	08/02	08/09	08/15	10.00	+2.00	25.1	0.0	-0.1
30-YEAR BOND	08/02	08/10	08/15	5.00	-5.00			
2-Year Note	08/23	08/30	08/31	10.00		27.7	-0.9	-17.7
				50.00	5.60	80.13	-1.25	-30.13
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R = Reopening	Treasury announced a		NET CASH RAISED THIS QUARTER:			-36.07		
A = Announced	Q3 borrowing		FOREIGN ADD-ONS:			11.76		
	add-ons and		TOTAL NEW MONEY RAISED THIS QUARTER:			-24.31		
	\$8 need of -		NET FED REDEMPTION:			-12.70		
	\$45 billion on		BUYBACKS:			-8.00		
	7/31/00		TOTAL NET BORROWING:			-45.00		

U.S. TREASURY FINANCING SCHEDULE FOR 4TH QUARTER 2000

Billions of Dollars

Issue	Announcement Date	Auction Date	Settlement Date	Offered Amount	Foreign Add-Ons	Maturing Amount	Net Fed Redemption	New Money
3&6 MONTH BILLS	09/28	10/02	10/05	19.00		16.5	0.00	2.47
	10/05	10/09	10/12	19.00		16.1	1.84	2.91
	10/12	10/16	10/19	19.00		16.7	0.00	2.31
	10/19	10/23	10/26	19.00		17.8	0.00	1.21
	10/26	10/30	11/02	19.00		17.0	0.00	1.99
	11/02	11/06	11/09	19.00		17.0	1.21	2.00
	11/09	11/13	11/16	19.00		17.0	0.00	1.96
	11/16	11/20	11/23	19.00		18.3	0.00	0.73
	11/23	11/27	11/20	19.00		17.0	0.00	2.00
	11/28	12/04	12/07	19.00		17.4	1.02	1.65
	12/07	12/11	12/14	19.00		17.5	0.00	1.55
	12/14	12/18	12/21	19.00		17.1	0.00	1.95
	12/21	12/25	12/28	19.00		17.0	0.00	2.00
				247.00	4.00	222.28	4.07	24.72
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1-YEAR BILLS								
			10/12	0.00		11.8	-495	-11.78
			11/09	0.00		10.9	-4.54	-10.91
	11/23	11/28	11/30	10.00		0.0	0.0	10.00
			12/07	0.00		10.0	-4.82	-10.00
				10.00	0.70	32.69	-14.31	-22.69
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CASH MANAGEMENT BILLS								
77-Day Bill	09/28	10/02	10/03	15.00		15.00		0.00
	Matures 12/19							
78-Day Bill	11/01	12/02	11/03	25.00		0.00		25.00
	Matures 1/18							
71-Day Bill	11/09	11/14	11/15	25.00		0.00		25.00
	Matures 1/25							
14-Day Bill	11/28	11/20	12/01	15.00		15.00		0.00
	Matures 12/15							
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BUYBACKS								
	09/27	09/28	10/02					-1.50
	10/28	10/19	10/23					-1.50
	10/25	10/26	10/30					-1.50
	11/21	11/22	11/27					-1.50
	11/29	11/30	12/04					-1.50
	12/20	12/21	12/26					-1.50
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COUPONS				Change in Size				
2-Year Note	09/20	09/27	10/02	10.00	0.0	28.0	0.00	-18.00
30-YEAR TIPS	10/04	10/11	10/16	6.00	0.0	0.00	0.00	6.00
2-YEAR NOTE	10/18	10/25	10/31	10.00	-0.54	28.7	-0.54	-18.73
5-YEAR NOTE	11/01	11/07	11/15	12.00	+2.00			
10-YEAR-NOTE (R)	11.02	11.08	11.15	20.00	-2.00 0.00	24.1	0.00	-4.09
2-Year Note	11/22	11/29	11/30	10.00		28.1	-1.01	-18.17
				56.00	7.05	109.00	-1.55	-53.00
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R = Reopened A = Announced	Treasury announced Q4 borrowing need of \$10 billion on 7/31/00			NET CASH RAISED THIS QUARTER:		-09.97		
				FOREIGN ADD-ONS:		11.75		
				TOTAL NEW MONEY RAISED THIS QUARTER:		10.78		
				NET FED REDEMPTION:		-11.78		
				BUYBACKS:		-9.00		
				TOTAL NET BORROWING:		-10.00		